

MBA V700
Strategic Business Analysis and Valuation
WINTER 2023 Course Outline

AIC Institute for Strategic Business Studies
DeGroot School of Business
McMaster University

COURSE OBJECTIVE

- To learn the basic, high-level concepts and principles of business valuation and pricing, and
 - To learn several approaches and methods to assess (estimate) business values.
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INSTRUCTOR AND CONTACT INFORMATION

Michael R. Carnegie, BComm, CPA, CA, CBV

Salvatore Macaluso

Instructor

Teaching Assistant

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Tel: 289-260-9192

Tel: (905) 807-6878

Class Location: Live – In Person

Office hours:

Ron Joyce Center, Burlington

By appointment on request

Class Time: Thursday, 7:00 PM to 10:00 PM

Office hours available upon request

COURSE ELEMENTS

Credit Value:	3	Leadership:	No	IT skills:	Yes	Global view:	Yes
Avenue:	Yes	Ethics:	Yes	Numeracy:	Yes	Written skills:	Yes
Participation:	Yes	Innovation:	No	Group Work:	Yes	Oral Skills:	Yes
Evidence-based:	Yes	Experiential:	No	Final Exam:	No	Guest speaker(s):	TBD

COURSE DESCRIPTION

In this course, concepts from finance, accounting, economics, business strategy, and other business disciplines are combined and implemented to assess (estimate) the values of businesses and business interests. The focus is on the high-level concepts, principles, approaches and methods employed in this discipline. The course will be useful to students planning careers in business valuation, investment banking, securities analysis, credit analysis, consulting, public accounting, and corporate management. Lectures will be supplemented by case analysis (examples) and other discussion material.

I am excited for this upcoming semester. This is the fourth semester in which I incorporate improvements to enhance the educational benefits and enjoyment for the participants. These improvements include the adoption of the textbook “Understanding Business Valuation, A Practical Guide to Valuing Small to Medium Sized Businesses” which is now in its 6th edition with updates to 2021. While the textbook is approximately 1,200 pages long, by determining those chapters and pages which are important to the curriculum and class schedule (identified in the course schedule on the last two pages of this outline), the required reading is about 540 pages.

Please reach out to me in advance of the first lecture (or any time thereafter) if you have any questions.

Mike

LEARNING OUTCOMES

Upon completion of this course, students will be able to complete the following key tasks:

- Explain valuation concepts and principles and the difference between the open market and the notional market.
- Analyze a business for the purpose of:
 - Determining the appropriate valuation approach(es) and method(s)
 - Adjusting the financial position and historical results of operations to reflect current, economic conditions
 - Estimate (project) prospective cash flow
 - Estimate appropriate required rates of return
- Consider and adjust for control (or lack thereof), marketability and liquidity
- Prepare an appropriate and well-reasoned valuation report along with an executive summary of key valuation factors, assessments, calculations, conclusions, and recommendations

REQUIRED COURSE MATERIALS AND READINGS

Avenue registration for course content, readings and case materials
<http://avenue.mcmaster.ca>

Understanding Business Valuation, Sixth Edition, Gary R. Trugman, BVR Resources.

EVALUATION

Learning in this course results from lectures and related readings, in-class discussion, and assignments (which involve the preparation and presentation of business-valuation calculations and/or reports). All work is to be completed and will be evaluated on an individual basis except where group work is expected. Your final grade will be calculated as follows:

Components and Weights

Core Knowledge Test	Non-Case (individual)	15%
Assignment 1	ABV Valuation Exercise (individual)	5%
Assignment 2	CCF Valuation Exercise (individual)	5%
Assignment 3	DCF Valuation Exercise (individual)	10%
Assignment 4	Case Analysis (individual)	20%
Final Group Assignment	Business Valuation Report (30%) and in-class presentation (10%)	40%
Participation	In-Class Contribution (individual)	5%
Total		100%

NOTE: The use of a McMaster standard calculator is allowed during tests in this course. See McMaster calculator policy at the following URL:

www.mcmaster.ca/policy/Students-AcademicStudies/UndergraduateExaminationsPolicy.pdf

Core Knowledge Test

There is one test in the course that accounts for **15%** of your final grade. The test will cover material from the textbook, lectures, and class discussion. The format of the test is a combination of multiple choice and short-answer questions. Just like in the “real” world, the test is open book.

Assignments #1, #2, and #3 – Applying Valuation Methods

These assignments are **each worth 5% or 10%** of your final grade, are to be completed on an individual basis, and will be marked individually. They will be assigned during the course and will test your ability to apply a single business-valuation method.

Assignment #4 - Case Analysis

This assignment accounts for **20%** of your final grade, is to be completed on an individual basis, and will be marked individually. This assignment will test your ability to select and apply appropriate valuation methods based on the case facts. You will be responsible for analyzing and preparing a solution to the case.

Major Group Assignment – Valuation Report Analysis and In-Class Presentation

This assignment accounts for **40%** of your final grade and will be marked on a group basis. The assignment requires the integration and application of concepts and techniques covered in the course. It is a group project which requires the preparation of value analyses and a valuation report. Each group will select one publicly traded company and compare its value to its per-share price (market capitalization), at the time. Doing so requires gathering and reflecting matters as:

- current and future-expected economic conditions, market conditions, and the key success factors and risks in the industry, and the subject company
- required rates of return,
- the company’s strategy, and
- analysis of historic results and forecasting probable future results to assess the value of the share equity using appropriate valuation methods. An investment recommendation should flow from the results of the valuation exercise.

You are required to consult with the instructor concerning your selected company at least two weeks before the due date. The written report should not exceed **25** pages (excluding title page, tables, graphs, appendices and references). A copy of your written report and presentation slides are to be handed in before the start of the last class. Reports should be 12-point, double spaced. Each group will present its project to the class (approximately 15 minutes) during the last session of the semester.

Participation

This aspect will account for 5% of your final grade. Discussion of course material, textbook and other readings, and cases in class, and sharing your previous academic and vocational experiences, are an important part of the learning process for all participants. Marks will be awarded based on an assessment of participation in such discussions.

Grade Conversion

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

Letter Grade	Percent	Points
A+	90-100	12
A	85-89	11
A-	80-84	10
B+	75-79	9
B	70-74	8
B-	60-69	7
F	00-59	0

COMMUNICATION AND FEEDBACK

Students that are not comfortable directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Associate Dean:

<http://mbastudent.degroote.mcmaster.ca/contact/anonymous/>

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Instructors are encouraged to conduct an informal course review with students by Week #4 to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

ACADEMIC INTEGRITY

You are expected to exhibit honesty and use ethical behaviour in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behaviour can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: "Grade of F assigned for academic dishonesty"), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

AUTHENTICITY/PLAGIARISM DETECTION

Some courses may use a web-based service (Turnitin.com) to reveal authenticity and ownership of student submitted work. For courses using such software, students will be expected to submit their work electronically either directly to Turnitin.com or via an online learning platform (e.g. A2L, etc.) using plagiarism detection (a service supported by Turnitin.com) so it can be checked for academic dishonesty.

Students who do not wish their work to be submitted through the plagiarism detection software must inform the Instructor before the assignment is due. No penalty will be assigned to a student who does not submit work to the plagiarism detection software.

All submitted work is subject to normal verification that standards of academic integrity have been upheld (e.g., on-line search, other software, etc.). For more details about McMaster's use of Turnitin.com please go to www.mcmaster.ca/academicintegrity.

COURSES WITH AN ON-LINE ELEMENT

Some courses may use on-line elements (e.g. e-mail, Avenue to Learn (A2L), LearnLink, web pages, capa, Moodle, ThinkingCap, etc.). Students should be aware that, when they access the electronic components of a course using these elements, private information such as first and last names, user names for the McMaster e-mail accounts, and program affiliation may become apparent to all other students in the same course.

The available information is dependent on the technology used. Continuation in a course that uses on-line elements will be deemed consent to this disclosure. If you have any questions or concerns about such disclosure, please discuss this with the course instructor.

ON-LINE PROCTORING

Some courses may use online proctoring software for tests and exams. This software may require students to turn on their video camera, present identification, monitor and record their computer activities, and/or lock/restrict their browser or other applications/software during tests or exams. This software may be required to be installed before the test/exam begins.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the [Code of Student Rights & Responsibilities](#) (the “Code”). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students’ access to these platforms.

MISSED ACADEMIC WORK

Missed Mid-Term Examinations / Tests / Class Participation

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the Student Experience – Academic (MBA) office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor. Documentation explaining such an absence must be provided to the Student Experience – Academic (MBA) office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide to Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and the McMaster University Student Health Certificate which can be found on the DeGroote website at <http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Director of the program.

To document absences for reasons other than health related, please provide Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted time due to the following reasons: religious; work-related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances, have the option of applying for special exam arrangements. Such requests must be made to the Student Experience – Academic (MBA) office at least ten (10) working days before the scheduled exam along with acceptable documentation. Instructors cannot themselves allow students to unofficially write make-up exams/tests. Adjudication of the request must be handled by Student Experience – Academic (MBA).

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

Missed Final Examinations

A student who misses a final examination without good reason will receive a mark of 0 on the examination.

All applications for deferred and special examination arrangements must be made to the Student Experience – Academic (MBA) office. Failure to meet the stated deadlines may result in the denial of these arrangements. Deferred examination privileges, if granted, must be satisfied during the examination period at the end of the following term. There will be one common sitting for all deferred exams.

Failure to write an approved deferred examination at the pre-scheduled time will result in a failure for that examination, except in the case of exceptional circumstances where documentation has been provided and approved. Upon approval, no credit will be given for the course, and the notation N.C. (no credit) will be placed on the student's transcript. Students receiving no credit for a required course must repeat the course. Optional or elective courses for which no credit is given may be repeated or replaced with another course of equal credit value.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

Any student who is unable to write a final examination because of illness is required to submit the Application for Deferred MBA Final Examination and a statement from a doctor certifying illness on the date of the examination. The Application for Deferred MBA Final Examination and the McMaster University Student Health Certificate can be found on the DeGroote website at <http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>. Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. Students who write examinations while ill will not be given special consideration after the fact.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within five business days of the missed examination.

Special examination arrangements may be made for students unable to write at the posted exam time due to compelling reasons (for example religious, or for part-time students only, work-related reasons):

- Students who have religious obligations which make it impossible to write examinations at the times posted are required to produce a letter from their religious leader stating that they are unable to be present owing to a religious obligation.
- Part-time students who have business commitments which make it impossible to write examinations at the times posted are required to produce a letter on company letterhead from the student's immediate supervisor stating that they are unable to be present owing to a specific job commitment.

In such cases, applications must be made in writing to the Student Experience – Academic (MBA) office at least ten business days before the scheduled examination date and acceptable documentation must be supplied.

If a student is representing the University at an academic or athletic event and is available at an overlapping scheduled time of the test/examination, the student may write the test/examination at an approved location with an approved invigilator, as determined by the Student Experience – Academic (MBA) office.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within ten business days of the end of the examination period.

Note: A fee of \$50 will be charged for a deferred exam written on campus and a fee of \$100 for deferred exams written elsewhere. In cases where the student's standing is in doubt, the Graduate Admissions and Study Committee may require that the student with one or more deferred examination privileges refrain from re-registering until the examination(s) have been cleared.

ACADEMIC ACCOMMODATION OF STUDENTS WITH DISABILITIES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the [RISO](#) policy. Students should submit their request to their Faculty Office ***normally within 10 working days*** of the beginning of term in which they anticipate a need for accommodation or to the Registrar's Office prior to their examinations. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

POTENTIAL MODIFICATION TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

ACKNOWLEDGEMENT OF COURSE POLICIES

Your registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of MBA V700 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. **It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.**

Lack of awareness of the course policies **cannot be invoked** at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

COURSE SCHEDULE

MBA V700
Strategic Business Analysis and Valuation
WINTER 2023 Course Schedule

WEEK	DATE	Assignment
1	Jan 12	<p>Read: Text – Preface, Introduction, Chapter 1 (pages 1-10), Chapter 2 (pages 28-31), Chapter 3 (pages 73-74) and Chapter 4 (in its entirety)</p> <p>Discuss: - Class Outline, Schedule, Participation, Assignments</p> <p>Lecture: - What is an investment? Value and value in a business context (Why? What? for Whom? How?)</p> <ul style="list-style-type: none"> - Overview of Business Valuation (concepts, methods, and approaches) - Business-Valuation Principles, Theory, and Terms
2	Jan 19	<p>Read: Text – Chapter 3 (pages 100-102), Chapter 5 and Chapter 6 (pages 15-171)</p> <p>Lecture: Info Gathering and Economic and Industry Analysis</p> <p>Presentation (Time Permitting): The Art and Science of Business Valuation</p>
3	Jan 26	<p>Read: Chapter 6 (pages 171-214)</p> <p>Lecture: Company Financial Analysis:</p> <ul style="list-style-type: none"> • Dissecting and segregating the balance sheet (financial position) into component parts relevant to business valuation • Introduction to Normalizing Adjustments with respect to the income statements (results of operations), and • Compare and contract accounting profits with cash flow
4	Feb 2	<p>Read: Text - Chapter 11 and Chapter 14 (Pages 590-593)</p> <p>Lecture: - Finish Normalizing Adjustments – Financial position</p> <ul style="list-style-type: none"> - Assessing Tangible Asset Backing and Invested Capital - Applying Asset-Based Valuation Approaches including income-tax issues related to valuation <p>Discuss: Assignment 1</p> <p>Stop/Start Course Progression Survey Instructions</p>
5	Feb 9	<p>Due: Assignment #1 - Adjusted Book-Value Approach</p> <p>Discuss – Survey Results</p> <p>Read: Text – Chapter 12</p> <p>Lecture: – Income Approaches</p> <ul style="list-style-type: none"> – Enterprise Value to Equity Value – Finish Normalizing Adjustments (income statement, cash flow) – Capitalized Cash Flow and Capitalized Earnings Methods <p>Discuss: Assignment #2 Capitalized Cash-Flow Approach</p>

WEEK	DATE	Assignment
6	Feb 16	<p>Due: Assignment #2 - Capitalized Cash-Flow Approach Read: No additional reading needed for this class Lecture: - Income Approaches – Simple to Complex – The Discounted Cash Flow Method Discuss: Assignment 3 – Discounted Cash-Flow Approach</p>
7	Feb 23	<p>Due: Assignment #3 - Discounted Cash Flow Approach Read: Text - Chapter 13 Lecture: Discount and Capitalization Rates. Introduction to the Weighted-Average Cost of Capital Discuss: Core-Knowledge Test</p>
8	Mar 2	<p>In-Class Core-Knowledge Test Read: Text - Chapter 8 Lecture: Forecasting Economic Benefits to Ownership</p>
9	Mar 9	<p>Read: Text - Chapters 9 and 10 but only pages 297-300, 305-319, 330-338, 346-351, 362, 363-387, 389-401 Lecture: The Market Approaches</p>
10	Mar 16	<p>Due: Assignment #4 - Case Analysis Read: Text - Chapter 2 (pages 35-42), and Chapter 17 Lecture: Valuation Reports (including reporting best practices for internal and external reports) Discuss: the plan for the next three weeks including, if time permits, reading Chapter 20 and having a lecture on valuation of intangible assets (intellectual property)</p>
11	Mar 23	<p>Read: Text - Chapter 14 (pages 523-541) and Chapter 15 (pages 549-554, Figure 15.3 on page 584, Figure 15.4 on page 588, page 607 [re: yield spreads], pages 612-623 Lecture: - Premiums and Discounts</p>
12	Mar 30	<p>Lecture: - Valuation Potpourri & Special Topics - Send requests by March. 24th</p>
13	Apr 6	<p>Due: Assignment #4 - Comparative Business Valuation Analysis Report and In-Class Presentation Closing remarks</p>